



Lockheed Martin Energy Systems, Inc. Savings Program

“Constructing a Solid Retirement”

1999-The Year in Review

1999-The Big Picture

Just like our companies, the Savings Program experienced significant changes during the past year. In just a six month period, the last of the collectively bargained units joined the new Savings Program. Then, LMUS participants, both active and retired, joined in the transfer of accounts to the new USEC plan. This transfer had a dramatic impact on the number of our participants and the dollars invested in the plan. The 1999 changes were on the heels of other changes in 1998 (Bechtel Jacobs) and possible changes in 2000.

Let's take a look at participation.

	12/31/96	12/31/97	12/31/98	12/31/99
Actives-Fully Vested	14,306	13,579	11,800	8,546
Actives-Non Vested	<u>696</u>	<u>572</u>	<u>362</u>	<u>146</u>
Total Participating	<u>15,002</u>	<u>14,151</u>	<u>12,162</u>	<u>8,692</u>
Separated-Receiving Benefits	342	360	945	970
Separated-Deferred Distributions	<u>2,649</u>	<u>2,990</u>	<u>2,328</u>	<u>2,165</u>
Total Separated Participants	<u>2,991</u>	<u>3,350</u>	<u>3,273</u>	<u>3,135</u>
Total Active Participants	15,002	14,151	12,162	8,692
Total Separated Participants	<u>2,991</u>	<u>3,350</u>	<u>3,273</u>	<u>3,135</u>
Total Participants	<u>17,993</u>	<u>17,501</u>	<u>15,435</u>	<u>11,827</u>

Although the plan total population is decreasing, we are pleased that the total participation as a percentage of the eligible workforce is increasing. This means more of you are taking advantage of what may be the last best individual tax advantaged program.

Remember, participation in the plan is available to all employees. Even if you have never participated before, you are immediately eligible to participate in the plan. Maybe today is a good time to start.

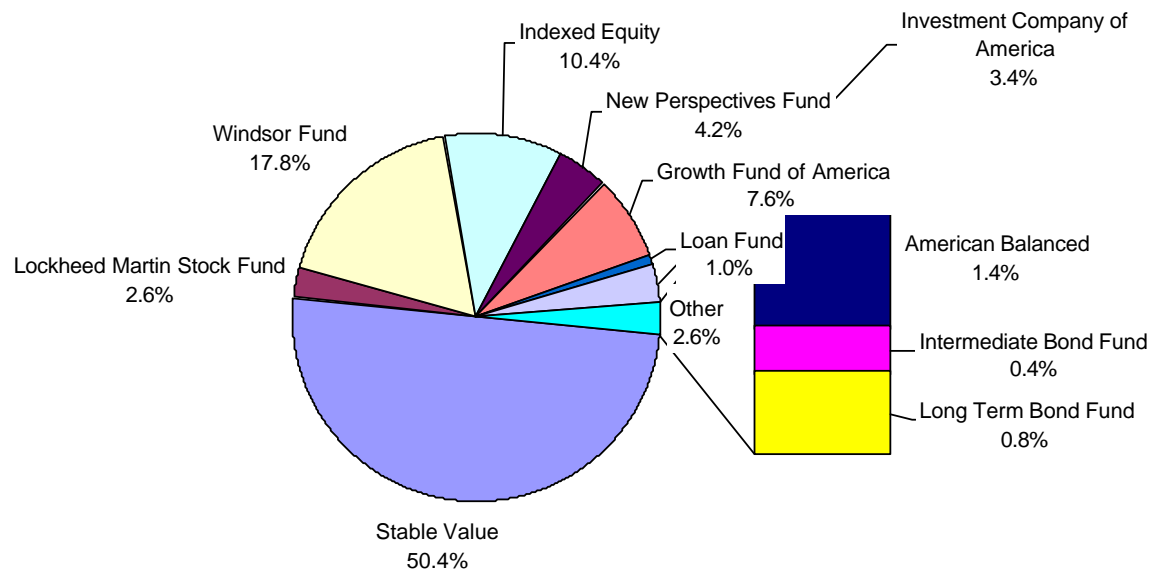
What about the dollars invested?

Lockheed Martin Energy Systems, Inc.

Investments	12/31/99	
Stable Value	\$516,599,789	50.44%
Lockheed Martin Stock Fund	\$26,554,989	2.59%
Windsor Fund	\$182,622,183	17.83%
Indexed Equity	\$106,052,345	10.35%
New Perspectives Fund	\$43,196,275	4.22%
Growth Fund of America	\$77,556,715	7.57%
Loan Fund	\$10,000,969	0.98%
Investment Company of America	\$34,488,734	3.37%
American Balanced	\$14,669,444	1.43%
Intermediate Bond Fund	\$4,469,514	0.44%
Long Term Bond Fund	\$7,995,260	0.78%
Totals	\$1,024,206,218	100.00%

If we look at the allocation in a picture, we see that we remain heavily committed to the Stable Value Fund, but as it happened last year, the Stable Value Fund continues to decrease as a percentage of the total. This is due to both decreased elections to the Stable Value Fund and to the higher earnings rate in other investment alternatives.

Allocation at 12/31/1999



At first glance, there doesn't seem to be much change. The total fund is essentially the same as last year, but totals can be deceiving.

First, the program was not static during the year. You, the participants, continued to contribute a significant portion of your compensation to the plan.

Sources	1999 Contributions
Employee Pre-Tax Basic	\$20,951,927
Employee Pre-Tax Supplemental	<u>\$13,296,169</u>
Total Employee Pre-Tax	<u>\$34,248,096</u>
Employer Match Pre-Tax	<u>\$14,045,589</u>
Total Pre-Tax	<u>\$48,293,685</u>
Employee After-Tax Basic	\$6,008,115
Employee After-Tax Supplemental	<u>\$5,038,786</u>
Total Employee After-Tax	<u>\$11,046,901</u>
Employer Match After-Tax	<u>\$3,712,929</u>
Total After-Tax	<u>\$14,759,830</u>
Rollover	<u>\$252,669</u>
Totals	
Employee	\$45,294,997
Employer	\$17,758,518
Rollover	<u>\$252,669</u>
Totals	<u><u>\$63,306,184</u></u>

How much is \$63,306,184? If you handed it out in \$100 bills, one bill every second, you would have to hand it out for 175 hours or a little more than a week, for 24 hours a day. That's a lot of contributions.

The contributions were not the largest increase in the program for the year. Once again, we saw this last year as well, earnings on the funds were greater than contributions. Now, that is not the case for every investment alternative, but it is true for the Savings Program in total. We will visit performance later, but let's just look at gross earnings dollars.

Lockheed Martin Energy Systems, Inc.

Savings Program

Investments	Earnings
Stable Value	\$31,589,537
Lockheed Martin Stock Fund	-\$17,680,413
Windsor Fund	\$28,229,038
Indexed Equity	\$19,264,083
New Perspectives Fund	\$11,223,237
Growth Fund of America	\$21,797,776
Loan Fund	\$1,017,393
Investment Company of America	\$5,126,000
American Balanced	\$622,132
Intermediate Bond Fund	\$4,251
Long Term Bond Fund	<u>-\$631,357</u>
Totals	<u><u>\$100,561,678</u></u>

That's over one hundred million dollars. If you were earning that per hour, you would be making more than \$48,000 per hour. Each time the clock ticked during 1999, the program earned \$3.19 per second, every second, every hour, every day.

If the fund had not changed otherwise, we would have expected the total to be more than \$163,000,000 larger. However, 1999 saw quite a bit of withdrawal and distribution activity along with the transfer of funds to other savings programs. We did transfer into the plan the last collective bargaining unit in March of 1999, but in July 1999 we transferred out of the plan, the former LMUS actives and retirees to the United States Enrichment Corporation. These distributions, terminations and withdrawals offset the growth from contributions and earnings.

Lockheed Martin Energy Systems, Inc.

Savings Program

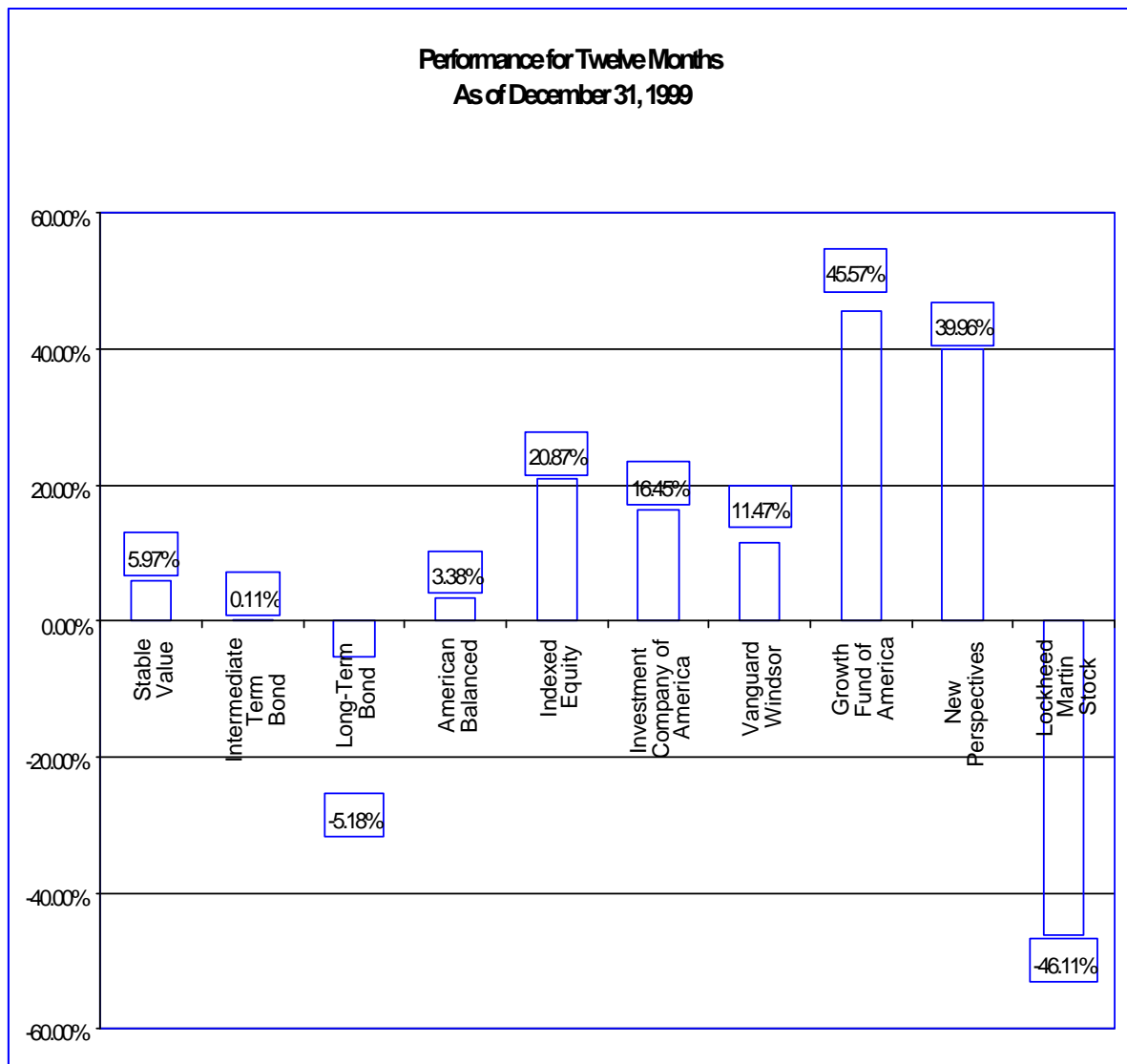
Investments	Terminations	Withdrawals	Other Plans
Stable Value	-39,202,306	-12,654,837	-78,178,088
Lockheed Martin Stock Fund	-1,585,087	-462,479	-8,451,324
Windsor Fund	-13,588,071	-3,175,743	-33,759,150
Indexed Equity	-3,464,266	-2,000,679	-13,883,013
New Perspectives Fund	-1,363,367	-393,766	-4,234,200
Growth Fund of America	-2,776,350	-661,121	-8,728,933
Loan Fund	-274,724	-70,263	-3,613,231
Investment Company of Amer	-1,265,594	-525,435	-5,576,924
American Balanced	-785,631	-162,514	-2,076,271
Intermediate Bond Fund	-531,933	-197,003	-774,591
Long Term Bond Fund	-438,877	-87,639	-1,390,497
Totals	-65,276,206	-20,391,478	-160,666,222

Even with all these changes, including a transfer of over 4,200 accounts to USEC Savings Program, the total assets in the plan remain over a billion dollars. This makes our plan one of the larger plans in the country.

By reviewing the activity in the plan we have also mentioned the first two secrets of “constructing a solid retirement”, namely, contribute all you can and leave it alone. Don’t withdraw your savings, even if the plan rules allow you to. If we were able to set aside all that we needed for retirement then we wouldn’t be too concerned about how our investments performed. We would only need them to be safe and we could depend on our savings habits to provide the dollars we required. Unfortunately most of us will not have the dollars we need for a comfortable retirement if we rely only on our savings habits. We simply don’t save enough. It is the earnings on our savings that allows us to end up with more dollars than we saved and that allows us to eventually spend more than we put aside. That is the third secret to our construction plan. Invest your savings such that they earn enough to meet your retirement needs. How did we do? 1999 was another strong year for the investment markets. Even with some setbacks during the year, investments in general did far better in 1999 than they

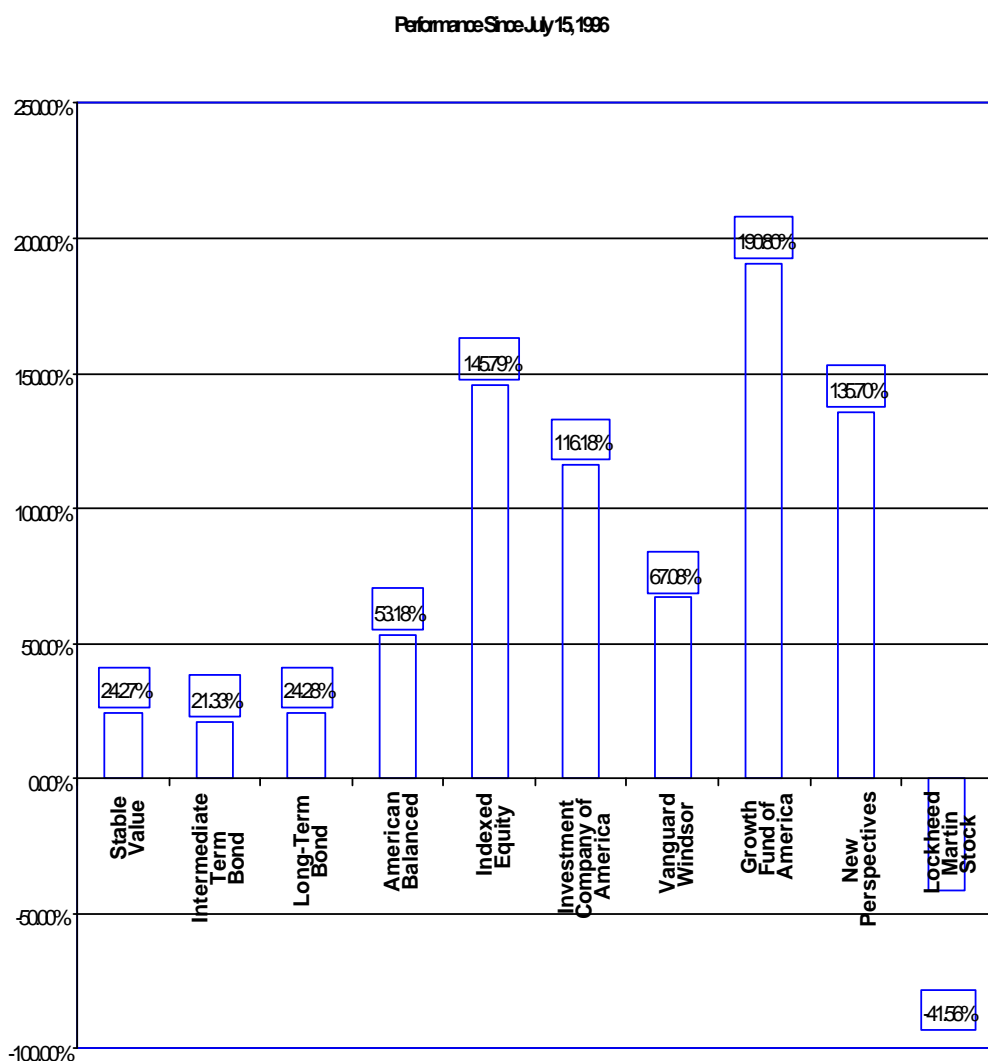
have on a historical average. Did everyone make money? No. Did everyone earn the same rate of return? No.

Let's take a look at the calendar year rates of return.



Are these good or bad? I don't know. Are they sufficient to meet your retirement objectives? Only you can answer that question. The secret here is to invest your assets in such a way that the return on your savings will allow you to meet your retirement objectives. That is different for each investor. What should you do? See our education program "Selecting Investments for Your Savings Program", it's right here on the WEB or attend the next auditorium session.

How have the investments performed over time? We don't have a long history in our own savings program. Shown below is the performance since we first started measuring it.



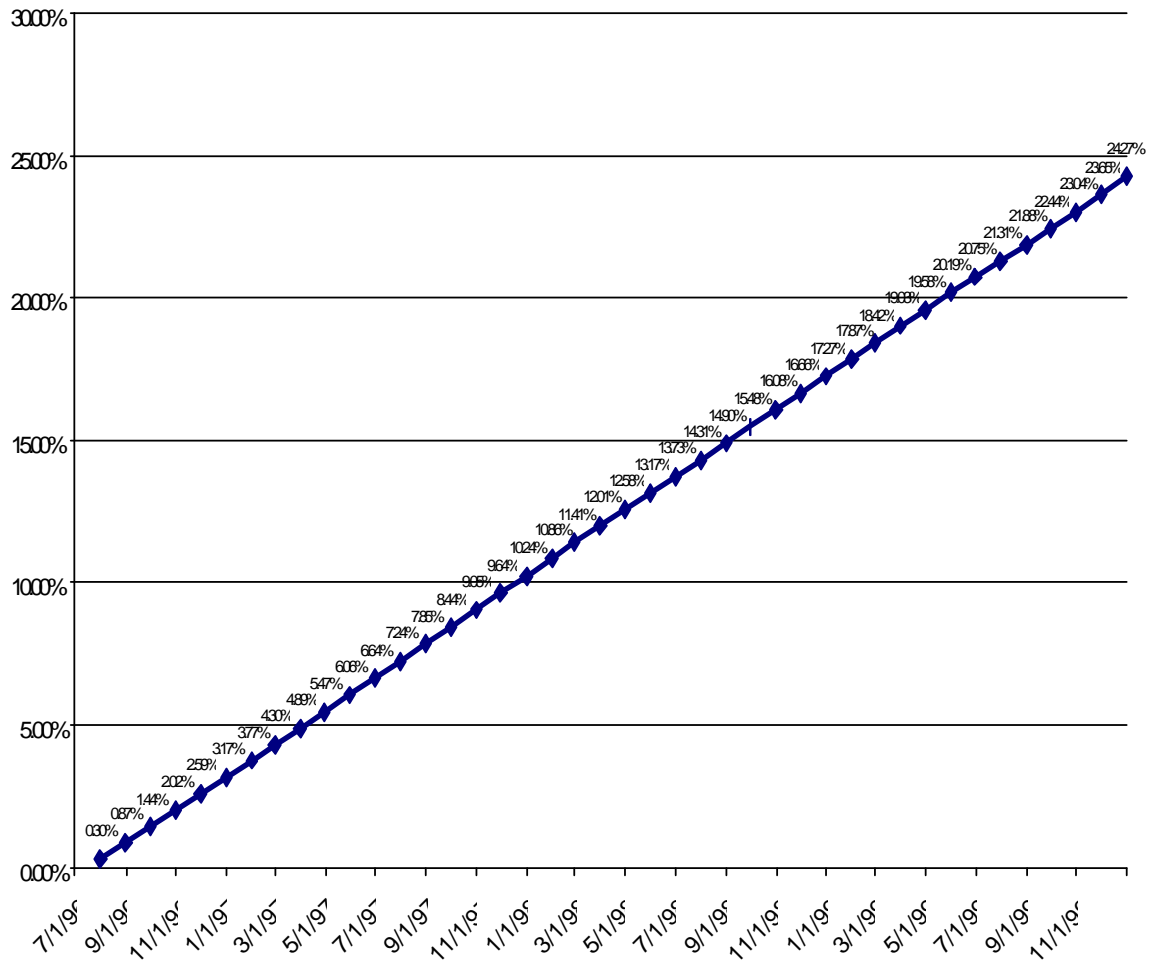
Remember, these are cumulative percentages assuming you money had been invested from day one. To get an actual return for your particular

investment, you would need to do a calculation based on the actual cash flows into the investment.

What does this tell me? Only that there are differences in rates of return. Will these differences always be the same? No. Investment earnings are not constant. With the possible exception of the Stable Value Fund, most of our investment funds have earnings that fluctuate over time. So what good does it do to look back at what funds have done? It is the only perspective that we have. We cannot predict the future with any degree of certainty so we are forced to look at the history. Do historical results guarantee future performance? No.

Take a look at three of our investment alternatives.

Stable
Value
Percentage Change from July 15, 1996



What can you say? Steady, almost predictable earnings, but at a lower rate than many of the other investment alternatives. The fund has never lost value. Who needs an investment like this? Those investors whose plan allows them to meet their retirement objectives, given their current rate of savings and a relatively low rate of return. If you aren't saving enough, even this safe alternative is not your answer. If even after savings all you are able, you can't meet your retirement needs, this fund may not be the answer. If you aren't going to have enough by just saving, what do you need? Higher return.

Let's look at the Growth Fund.

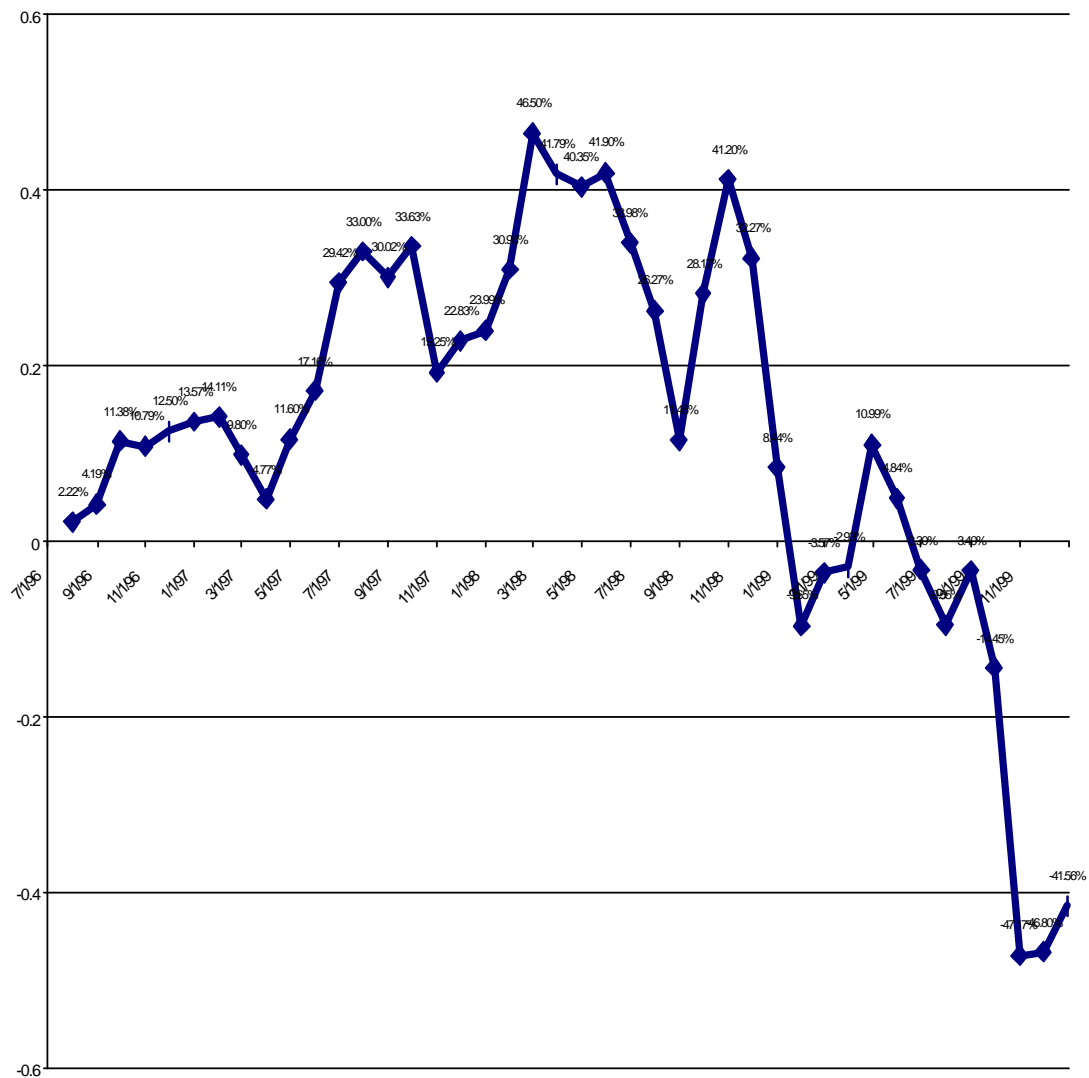
Growth Fund of America
Percentage Change from July 15, 1996



What is the difference? A much higher return, even over this short period of time. But look at what else happens. The value increases and decreases over time. When are the increases or decreases going to happen? I don't know and to be honest, neither does anyone else. All we have is history, and history tells us that over the "long" run, equity investments like the Growth Fund of America have had returns greater than the fixed income alternatives. But not every day, not every month and not every year. This fluctuation is called volatility and that is a characteristic of all equity investments.

One last fund. We will take a look at our parent, Lockheed Martin Corporation Stock. For most of the years that it has been a part of our Savings Programs, LMC Stock has been a profitable investment.

Lockheed Martin Stock
Percentage Change from July 15, 1996



Now what? It has not been a good year for the value of LMC stock. Does this mean that it is not a good investment? No. It only means that the market did not value the stock as highly as it had in the past. Will the market always react this way? I don't know. Many of our participants view this as an opportunity to buy LMC stock at lower prices. What is the point? Some investments actually decrease in value. If you cannot afford to lose some value, you may not be ready to invest in this alternative. On the other hand, if you are investing for the long term, depressed stock prices might indicate a time to buy. Maybe the point is, that each of us must evaluate our needs and choose our investments accordingly.

To sum it up, performance is a difficult concept. It is only part of the “construction project.”

The secrets remain the same:

Save all you can.

Leave it alone. Keep your investments in the plan.

Choose a set of investments that will provide a rate of return that will allow your savings to grow at the rate necessary to meet your retirement needs.

Get all the information you can. Use the resources on our WEB page and available through State Street Bank and Trust. Do some personal financial planning. Buy a book or a piece of software and construct your plan. Get some advice from a professional.

Do you have a question? Give us a call 423-574-9564 or send us an e-mail to ik5@y12.doe.gov.